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SUBJECT: Dialogue on Economic Cooperation -- Follow-up

REF: (A) STATE 24866, (B) BAGHDAD 789, (C) BAGHDAD 643

1. (SBU) SUMMARY: Deputy Prime Minister (DPM) Barham Salih's follow-up team for the Government of Iraq (GOI) hosted U.S.-Iraq Dialogue on Economic Cooperation (DEC) of February 27-28 have proposed to pursue implementation of actionable outcomes by breaking action items into functional groups. Once the division of labor is agreed, the DPM will then issue a directive with specific tasks to the High Economic Committee Secretariat within the Iraqi Council of Ministers (CoM). We have agreed to forward this proposal to Washington while the GOI's team vets it with the DPM. END SUMMARY.

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Functional Groups and  
Action Items  
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2. (SBU) The Government of Iraq (GOI) hosted the U.S. Government (USG) in Baghdad February 27-28, 2008 for the U.S.-Iraq Dialogue on Economic Cooperation (DEC). The DEC allowed senior officials from both governments to discuss the nature of the bilateral relationship, its future direction, and what the GOI can do to accelerate economic growth and improve the lives of its citizens. As a result of these sessions, the GOI and USG agreed to number of key 'next steps' for pursuing economic growth in Iraq as well as a follow-up mechanism to ensure actionable items are addressed (reported refTel C). The High Economic Committee Secretariat within the Iraqi Council of Ministers (CoM) was mandated as the coordinating body for the GOI, and the U.S. Embassy in Baghdad is to be its counterpart on implementing the recommendations and decisions of the DEC.

3. (SBU) EconOffs with the assistance of other CETI elements met several times in March with DPM Barham Salih's follow-up team to define the approach to take for implementation. The DPM's team has put forward a proposed division of labor that breaks the recommendations and decisions into action items, collated into functional groups. The list the DPM's team has proposed is as follows:

Trade and Investment  
Framework Agreement (TIFA)  
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-- U.S. to support implementation of Iraqi Investment Law by leading a trade mission to Iraq.  
-- GoI to seek Council of Representatives (CoR) ratification of the TIFA; GoI and USG each to identify representatives to the U.S.-Iraq Council on Trade and Investment (to be set up under the terms of the TIFA), a first meeting to be held upon CoR ratification.  
-- GoI seeks U.S. support to develop a legislative and regulatory action plan to support private sector development (including consumer protection and competition laws).

-- GoI to promote public awareness of the positive role of the private sector in the Iraqi economy.  
-- GoI seeks U.S. support in amending legislation to promote development of additional free zones in Iraq including at Baghdad International Airport.  
-- U.S. seeks to establish a dialogue on intellectual property rights.  
-- U.S. offers to educate Iraqi businesses on the benefits of using the Generalized System of Preferences (GSP); Ministry of Trade along with Ministry of Industry and Minerals and Iraqi Chambers of Commerce to support.  
-- GoI to support U.S. joint ventures with Iraqi Small and Medium-sized Enterprises (SMEs) through development of an international arbitration mechanism and transparent government procurement procedures.  
-- U.S. Embassy will continue to facilitate visa issuance for Iraqi businesses.

#### Banking and Finance

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-- GoI to support restructuring of Rafidain and Al-Rasheed banks (by helping to clear foreign debt liabilities and implement recapitalization plan); this also includes accelerated development of Al-Rasheed's core banking system.  
-- GoI to develop new legislation to regulate the relationship between banks and the Central Bank of Iraq (replacing CPA Order 22 of 2003).  
-- GoI to develop a plan to increase financing for the housing sector and SMEs and present it to the Economic Committee by March 31, 2008.  
-- GoI to support development of private banks in Iraq, including expansion of correspondent relationships. Encourage private banks to take advantage of Trade Bank of Iraq (TBI) training opportunities

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for Letters of Credit.

-- GoI to support expansion of general lending activity in Iraqi banks, including restructuring of Industrial Bank and through the Export Support Fund and the Economic Development Fund.  
-- GoI to accelerate installation of the Financial Management Information System, including in the provinces.

#### Energy

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-- U.S. to offer support in drafting and implementation of a National Energy Strategy (NES) for Iraq.  
-- GoI to increase private sector participation in the electricity sector.  
-- GoI to facilitate the transition from the International Accountability Management Board (IAMB) to the Committee of Financial Experts (COFE).  
-- GoI to improve the tender process - clear guidelines, transparency, international arbitration.  
-- GoI to work toward approval of oil and gas legislation and implement regulatory framework for the Investment Law.

#### Agriculture

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-- USAID will support improvement of institutional capacity in the Ministry of Agriculture through the Tatweer program - USDA will develop in-country training seminars for the IAER program.  
-- USAID will assist in the redevelopment of the Iraqi date industry through the Inma program.  
-- GoI seeks U.S. support for MoA reforestation programs.  
-- GoI seeks U.S. support to promote investment in the agricultural sector, including food processing and other agriculture-based industries.  
-- U.S. agrees to investigate allegations of removal of goods from State Company for Agricultural Supply warehouses by the U.S. military.

#### Anti-Corruption Programs

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-- U.S. offers to support Iraq's efforts to join Extractive Industries Transparency Initiative (EITI).  
-- U.S. offers to support training for Iraqi Inspectors General and to assist in the revision, as appropriate, of laws and regulations governing activities of IGs.

#### Iraqi Living Conditions

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-- Both sides agree to strengthen U.S./Iraq cooperation in ministerial capacity building to improve delivery of essential services.  
-- U.S. offers to support the Ministry of Trade's PDS reform initiative.  
-- U.S. offers to support development of the Social Safety Net (SSN) and help MoLSA to implement policies and procedures to combat corruption.  
-- U.S. seeks assurances that Internally Displaced Persons are able to receive their PDS benefits.

#### ACTION UPDATES

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14. (SBU) Meanwhile, CETI elements and GOI counterparts have continued to move forward on several of the action items agreed at the DEC, taking advantage of the momentum developed in the Dialogue. Updates follow:

15. (SBU) Implementation of the TIFA: On the margins of Iraq's second WTO Accession Working Party meeting in Geneva (April 1-2), USDel proposed to GOI representatives to hold the first meeting of the bilateral trade and investment council in June.

16. (SBU) State-owned Bank Restructuring: TreasAtt reports that work is advancing with a representative of the Prime Minister's (PM) staff to organize and present a workshop addressing Bank Restructuring. TreasAtt is in discussions with the SMART CARD vendor that contracted with Rafidain and Rasheed Banks to bring this service to market. TreasAtt has obtained verbal commitment of support for the service from the Deputy Minister of Finance (Banking).

17. (SBU) National Energy Strategy (NES): EnergyAtt, USAID and Energy Fusion Cell met with the PM's advisor Thamir Gadhban to discuss establishing a working group to draft the NES. Gadhban is

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to present the proposal to the GOI's Energy Committee, and report back on action taken on the proposal.

18. (SBU) Ministry of Oil's (MoO) Ten Year Plan and proposals for capturing flared gas: MoO's draft Ten Year Plan is vague, stating goals but lacking clearly defined implementation plans. MoO has not yet set a date for the final report's release. On flared gas, the MoO's 2006 agreement with Mitsubishi and Royal Dutch Shell to produce a Master Gas Plan (MGP) calls for the two firms to submit in April 2008 assessments of the existing gas processing facilities, need for future plants, as well as production, storage and usage. Embassy's Energy Team does not know if an agreement will be signed to extend this work on the MGP beyond April. MoO is in discussion with General Electric for the supply of new and replacement turbines in southern Iraq to gather and compress field gas.

19. (SBU) Reforming the Public Distribution System: Post reported reftel B on the Ministry of Trade's (MoT) plans for radical PDS reform. Our next step will be discussions with MoT on how to best support the reforms.

110. (SBU) Social Safety Net (SSN): USAID met with the Chief of Staff of DPM Salih to stress the importance of the SSN law, identify the remaining steps to get the SSN draft into law, and identify key contacts in the parliamentary process. USAID's project team is planning to convert the Microsoft Access (TM) database into the SQL-based system that will enable MoLSA to wean out beneficiaries

who might be receiving benefits through fraud. After the conversion, beneficiaries will be required to submit missing information from the applications prior to receiving benefits. The project team presented a new layout for the SSN ID card to MoLSA. The World Bank has expressed interest in providing resources for the SSN work.

¶11. (SBU) Extending the USDA's Iraq Agricultural Extension Revitalization (IAER) program: USDA representatives met with the Senior Deputy Minister (DM) of Agriculture, who has personally taken control of the program from the Sadrism Director General for Extension. A committee under the DMs charge will now be responsible for candidate selection. We have agreed that more training is needed in Iraq. FAS/Baghdad staff are traveling to Erbil the week of April 6 to assess potential training sites, primarily to be used for one-week training programs. Use would depend upon security and, for some courses, the availability of hands-on agricultural facilities. The DM suggested and USDA agreed that the IAER program manager would identify the most promising trainees to date to benefit from extended training, possibly in the U.S. This cadre would become trainers for MoA extension personnel in selected areas. (NOTE: USDA and the IAER Consortium members will meet in Washington to review these proposals and others for the program. END NOTE.)

¶12. (SBU) CoR ratification of four bilateral agreements from the July 2005 Joint Commission on Reconstruction and Economic Development: Three of these agreements are the purview of the CoR's Economic Committee; one falls under the authority of the Agriculture Committee. The latter had its readings in the CoR before the February recess; the other three were scheduled for first readings before the recess, and now must be rescheduled. Recent combat in several areas of Iraq have diverted attention, but as calm returns we continue to urge that these agreements be scheduled for CoR consideration and votes.

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COMMENT  
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¶13. (SBU) The DPM's DEC follow-up team continues to be proactive in pursuing an implementation mechanism through the High Economic Committee of the CoM. We note that the majority of the follow-up activities set out by functional group are tasked to the GoI -- at their suggestion. We welcome Department's comments on the suggestions for USG action, and the division of labor proposed. END COMMENT.

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